Traditional Defined Benefit Plans

Traditional Defined Benefit Plans can provide a guaranteed retirement benefit for employees while allowing contribution flexibility and the ability to favor the business owner.

AMERICAN NATIONAL®

A retirement plan with a powerful tax strategy.

What is a Defined Benefit Plan?

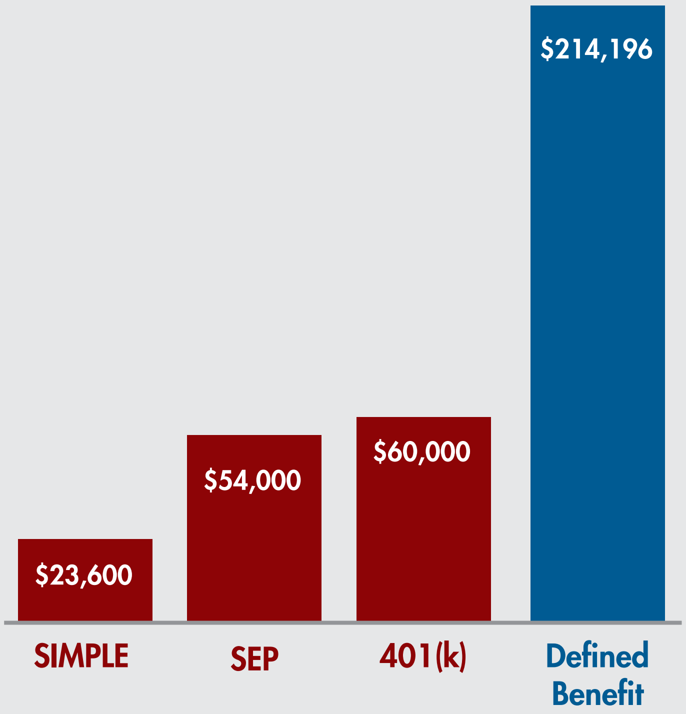
A traditional defined benefit plan is a tax qualified retirement plan where the employer promises a monthly benefit at retirement, determined by a formula and based on annual compensation, age, and years of service.

The deductible contribution is based on the amount needed to fund these benefits.

Today's DB plans offer a powerful tax strategy for small business owners, independent contractors and those with higher self-employment income.

While a defined benefit plan must have recurring annual contributions to fund benefits, one of the most attractive features of the plan is the potential for flexibility of that contribution. Each year, the plan's enrolled actuary calculates the new contribution based on current assets in the plan and the plan's unfunded liabilities. This means there will be a minimum and maximum contribution each year and a range of acceptable contributions and tax deductions for the employer.

Comparison of Plan Contribution Limits[1]



1) 2017 Plan, age 52 owner earning $270,000.
Includes "catch-up" contributions.

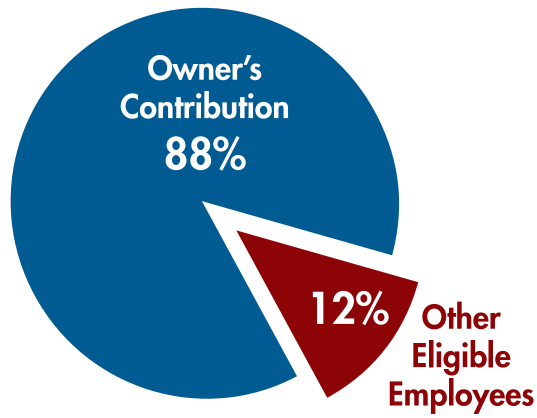
Favoring the Business Owner

Traditional defined benefit pension plans may be attractive to employers when:

1. There is a significant age and income disparity between the business owner and their employees.
2. The employer desires to make contributions greater than would be allowed in a defined contribution plan.
3. Contribution flexibility is desired.

Target Contribution Level Illustrated: $121,565

	Age	Contribution
Owner	49	$106,977
Eligible Employee 1	38	$8,509
Eligible Employee 2	29	$2,431
Eligible Employee 3	33	$3,648
Total Contribution:		**$121,565**



Contribution Flexibility

Defined benefit plans allow higher contribution levels than defined contribution plans but along with that flexibility comes the requirement to meet minimum contributions. However, there is still a vast amount of flexibility available in a traditional defined benefit plan as can be seen in the example below:

	Minimum Contribution	Maximum Contribution	Actual Contribution
Year One: The employer chose to fund the maximum deductible amount for the first year of the plan's operation.	$52,066	$185,023	$185,023
Year Two: The employer chose to fund his target contribution in year two, but is near the maximum deductible amount.	$0	$133,391	$121,565
Year Three: Because the employer has funded at, or near, the maximum in the first two years he had no required contribution in year three. This gave the employer the flexibility to invest in new equipment instead of funding the pension plan so in year three his contribution is $0.	$ 0	$155,151	$0

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Clients should contact their attorney or tax advisor on their specific situation.
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